



UNIVERSITY OF
SASKATCHEWAN

DEPARTMENT OF ECONOMICS

Economics 114.3 (02)
Money and Income

FINAL EXAMINATION
Regular Session 2006-2007, Term 2

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April 25, 2007

Time: 180 minutes

TOTAL MARKS: 100 - 1 mark per question

MULTIPLE CHOICE: 100 questions

INSTRUCTIONS:

1. On the answer sheet provided, print your name, the name and section number of the class, and the date.
2. Using an HB pencil, code your student number in the box so marked.
3. Answer ALL questions by completely filling in the circle whose letter corresponds to that of the best option for each question.
4. All questions are of equal value.

1. If the economy has a cyclically adjusted budget surplus, this means that:
 - A) the public sector is exerting an expansionary impact upon the economy.
 - B) tax revenues would exceed government expenditures if full employment were achieved.
 - C) the actual budget is necessarily also in surplus.
 - D) the economy is actually operating at full employment.

2. The complex multiplier is:
 - A) larger than the simple multiplier because the latter embodies fewer leakages.
 - B) larger than the simple multiplier because the latter embodies more leakages.
 - C) smaller than the simple multiplier because the latter embodies fewer leakages.
 - D) smaller than the simple multiplier because the latter embodies more leakages.

3. Due to automatic stabilizers, when income rises, government transfer spending:
 - A) increases and tax revenues decrease.
 - B) decreases and tax revenues increase.
 - C) and tax revenues decrease.
 - D) and tax revenues increase. ?

4. Which of the following statements is not correct?
 - A) Given the supply of money, a decline in the demand for money will tend to reduce the equilibrium GDP.
 - B) Given the supply of money, the equilibrium interest rate will vary directly with the level of money GDP.
 - C) Given the demand for money, the equilibrium interest rate will vary inversely with the supply of money.
 - D) Given the supply of money, the equilibrium interest rate will vary directly with the demand for money.

5. Individual chartered banks are limited in their ability to create money by lending because:
 - A) lending is likely to result in the loss of reserves to other banks. *
 - B) only the Department of Finance is authorized to create new money. *
 - C) the Bank of Canada prohibits bank lending when the result is an expansion of the money supply.
 - D) banking is a highly competitive industry.

6. The crowding-out effect of borrowing to finance the public debt:

- A) decreases current spending for private investment.
- B) increases the privately owned stock of real capital. X
- C) decreases the economic burden on future generations.
- D) increases incentives to work and save. X

7. A basic argument for using the M1 concept of money is that:

- A) it includes all of the important financial assets that have any degree of liquidity.
- B) the government collects data for the components of M1, but does not do so for M2 and M2+.
- C) its components are superior to other financial assets as a store of value.
- D) its components are directly and immediately spendable.

8. If the demand for money and the supply of money both decrease, we can conclude that the equilibrium:

- A) interest rate will decline, but we cannot predict the change in the equilibrium quantity of money.
- B) quantity of money and the equilibrium interest rate will both increase.
- C) quantity of money will increase, but we cannot predict the change in the equilibrium interest rate.
- D) quantity of money will decline, but we cannot predict the change in the equilibrium interest rate.

9. The aggregate expenditures theory hypothesizes that the:

- A) MPC is greater than zero, but less than one. ✓
- B) MPC and APC are equal at the point where the consumption schedule intersects the 45-degree line.
- C) APS is positive at all income levels.
- D) MPC is equal to or greater than one at all income levels.
- E) APC is always less than the MPC.

10. The multiplier effect means that:

- A) consumption is typically several times as large as saving.
- B) a small change in consumption demand can cause a much larger increase in investment.
- C) a small increase in investment can cause national income to change by a larger amount.
- D) a small decline in the MPC can cause equilibrium GDP to rise by several times that amount.

11. Other things equal, an improvement in productivity will:
 - A) shift the aggregate demand curve to the left.
 - B) shift the aggregate supply curve to the left.
 - C) shift the aggregate supply curve to the right.
 - D) increase the price level.
12. The "political business cycle" refers to the possibility that:
 - A) incumbent politicians will be reelected regardless of the state of the economy.
 - B) politicians will manipulate the economy to enhance their chances of being reelected.
 - C) there is more inflation during Liberal administrations than during Progressive Conservative administrations.
 - D) recessions coincide with election years.
13. If you are told that the government had an actual budget deficit of \$50 billion, then you would:
 - A) know that fiscal policy was expansionary.
 - B) know that fiscal policy was contractionary.
 - C) know that fiscal policy was producing a cyclical deficit.
 - D) not be able to determine the direction of fiscal policy from the information given.
14. Labor productivity is measured by:
 - A) the ratio of capital to labor.
 - B) real output per worker-hour.
 - C) real output per capital.
 - D) the ratio of worker-hours to real GDP.
15. The prime interest rate:
 - A) affects investment spending while the overnight rate affects consumption spending.
 - B) affects consumption spending while the overnight rate affects investment spending.
 - C) has no affect on exchange rates and net exports.
 - D) affects investment spending while the overnight rate affects overnight borrowing of bank reserves.
16. Fiat money is valuable because:
 - A) it is backed by gold.
 - B) it is fractionally backed by gold.
 - C) it is generally acceptable.
 - D) it is convertible to gold.

17. If there is a deficit in the Federal budget, then a person who advocates an annually balanced budget would most likely call for a(n):

- A) increase in government spending and/or a decrease in taxes.
- B) decrease in government spending and/or an increase in taxes.
- C) easy money policy to lower interest rates.
- D) tight money policy to raise interest rates.

18. The labor force includes:

- A) employed workers and persons who are officially unemployed. ✓
- B) employed workers, but excludes persons who are officially unemployed.
- C) full-time workers, but excludes part-time workers. *
- D) permanent employees, but excludes temporary employees. *

19. The reserves of a chartered bank consist of:

- A) the amount of money market funds it holds.
- B) the small deposits at the Bank of Canada and vault cash.
- C) government bonds which the bank holds.
- D) the bank's net worth.

20. Which is an important problem associated with the public debt?

- A) Payments of interest on the debt lead to greater income equality.
- B) Interest payments on the debt tend to improve economic incentives to work and produce more unemployment. *
- C) Government borrowing to finance the debt may increase the level of private investment.
- D) Payment of interest on the debt held by foreigners transfers real resources abroad.

21. The equilibrium level of GDP in a private closed economy is where:

- A) MPC = APC.
- B) unemployment is about 3 percent of the labor force. *
- C) planned consumption equals saving.
- D) saving equals planned investment.

22. When we say that the Canadian banking system is fractional reserve system, it means:

- A) chartered banks loan out only a small fraction of their deposits.
- B) chartered banks have to keep a large percentage of their deposit to meet everyday cash withdrawals.
- C) chartered banks loan out the entire deposits and do not have to meet their everyday cash withdrawal.
- D) chartered banks loan out most of their deposits, keeping only a small percentage of their deposits to meet everyday cash withdrawals.

23. The lag between the time the need for fiscal action is recognized and the time action is taken is referred to as the:

- A) crowding-out lag.
- B) recognition lag.
- C) operational lag.
- D) administrative lag.

24. An expansionary fiscal policy can be partially offset by a(n):

- A) increase in aggregate demand. ✓
- B) increase in aggregate supply.
- C) depreciation of the dollar.
- D) decrease in net exports.

25. Many economists believe that the high unemployment rates in Europe:

- A) demonstrate the ratchet effect in practice.
- B) reflect high natural rates of unemployment.
- C) are caused by an imbalance in saving and investment. ✗
- D) are the result of demand-pull inflation in the economy. ✗

26. If borrowers request that part of their loans be paid in currency, this would:

- A) increase the maximum demand-deposit creation of the banking system.
- B) decrease the lending potential of the banking system.
- C) decrease the reserve ratio of the banking system.
- D) increase the excess reserves of banks.

27. An increase in the public debt will:

- A) increase incentives to work and bear risk. ✗
- B) increase the inequality in the distribution of income.
- C) decrease the Canadian debt held by citizens and institutions in foreign nations. ✗
- D) decrease the potential for higher taxation in Canada

28. If net exports decrease from zero to some negative amount, the aggregate expenditures schedule would:

- A) shift upward.
- B) shift downward.
- C) not move (net exports do not affect aggregate expenditures).
- D) shift upward or downward, depending on whether the negative net exports resulted from a decline in exports or an increase in imports.

29. In a two-nation world, comparative advantage means that one nation can produce:

- A) a product with fewer inputs than the other nation.
- B) a product at lower average cost than the other nation.
- C) a product at a lower domestic opportunity cost than the other nation.
- D) more of a product than the other nation.

30. Given the consumption schedule, it is possible to graph the relevant saving schedule by:

- A) subtracting the MPC from "one" at each level of income.
- B) subtracting investment from consumption at each level of GDP.
- C) plotting the horizontal differences between the consumption schedule and the 45-degree line.
- D) plotting the vertical differences between the consumption schedule and the 45-degree line.

31. The amount of reserves that a chartered bank wishes to hold is equal to:

- A) the amount of its demand deposits.
- B) the sum of its demand deposits and time deposits. ✗
- C) its demand deposits multiplied by the desired reserve ratio.
- D) none of the above.

32. One reason the public debt will not bankrupt the Federal government is that the:

- A) cost is shifted to future generations. ✗
- B) debt has a procyclical effect on the economy.
- C) debt can be refinanced by selling new bonds. ✓
- D) burden of the debt will be crowded-out by new investment. ✗

33. The interest rate effect indicates that a(n):

- A) decrease in the price level will increase the demand for money, increase interest rates, and decrease consumption and investment spending.
- B) decrease in the price level will decrease the demand for money, decrease interest rates, and increase consumption and investment spending. ✓
- C) increase in the price level will increase the demand for money, reduce interest rates, and decrease consumption and investment spending.
- D) increase in the supply of money will increase interest rates and decrease interest-sensitive consumption and investment spending.

34. The total demand for money will shift to the left as a result of:

- A) a decline in nominal GDP.
- B) an increase in the price level.
- C) a change in the interest rate.
- D) an increase in nominal GDP.

35. In an aggregate demand and aggregate supply graph, an expansionary fiscal policy can be illustrated by a:

- A) leftward shift in the aggregate demand curve.
- B) rightward shift in the aggregate demand curve.
- C) leftward shift in the aggregate supply curve.
- D) change in the price level.

36. A tax reduction of a specific amount will be more expansionary, the:

- A) smaller is the economy's MPC.
- B) larger is the economy's MPC.
- C) smaller is the economy's multiplier.
- D) less the economy's built-in stability.

37. "Open-market operations" refers to:

- A) purchases of stocks in the Toronto Stock Exchange.
- B) the purchase or sale of government securities by the Bank of Canada.
- C) central bank lending to chartered banks.
- D) the specifying of margin requirements on stock purchases.

38. An increase in the price level in the aggregate expenditures model would:

- A) decrease aggregate expenditures and real GDP.
- B) increase aggregate expenditures and real GDP.
- C) increase aggregate expenditures and decrease real GDP.
- D) decrease aggregate expenditures and increase real GDP.

39. A consumer holds money to meet spending needs. This would be an example of the:

- A) use of money as a measure of value.
- B) use of money as legal tender.
- C) transactions demand for money.
- D) asset demand for money.

40. A nation's merchandise balance of trade is equal to its exports less its imports of:

- A) goods.
- B) goods and services.
- C) financial assets.
- D) official reserves.

41. When a bank loan is repaid the supply of money:

- A) is constant, but its composition will have changed.
- B) is decreased.
- C) is increased.
- D) may either increase or decrease.

42. The multiple by which the chartered banking system can expand the supply of money is equal to the reciprocal of:

- A) the MPS.
- B) its actual reserves.
- C) its excess reserves.
- D) the desired reserve ratio.

43. Which cause-and-effect chain would best explain the reason for a decline in net exports?
An expansionary fiscal policy:

- A) increases domestic interest rates and leads to an appreciation of the dollar that reduces net exports.
- B) decreases interest rates and leads to a depreciation of the dollar that reduces net exports.
- C) increases domestic interest rates and leads to a depreciation of the dollar that reduces net exports.
- D) decreases interest rates and leads to an appreciation of the dollar that reduces net exports.

44. The more progressive the tax system, the:

- A) less is the built-in stability for the economy.
- B) greater is the built-in stability for the economy.
- C) less is the effect of crowding-out on the economy. X
- D) greater is the severity of business fluctuations on the economy. X

45. The equilibrium rate of interest in the money market is determined by:

- A) the intersection of the supply of money and the asset demand for money.
- B) the intersection of the supply of money and the transactions demand for money.
- C) the intersection of the supply of money and the total demand for money.
- D) none of the above.

46. Demand deposits are classified as money because:

- A) they can be readily used in the making of purchases and payment of debts.
- B) banks hold currency equal to the value of their outstanding deposits.
- C) they are ultimately the obligations of the government. X
- D) they earn interest income for the depositor. X

47. Recessions have contributed to the public debt by:

- A) reducing national income and therefore tax revenues.
- B) increasing real interest rates.
- C) increasing the international value of the dollar.
- D) increasing national saving.

48. At the point where the consumption schedule intersects the 45-degree line:

- A) the MPC is 1.00.
- B) the APC is 1.00.
- C) saving is equal to consumption.
- D) the economy is in equilibrium.

49. The Bank of Canada regulates the money supply primarily by:

- A) controlling the production of coins at the Royal Canadian mint. ✗
- B) altering the reserve requirements of chartered banks and thereby the ability of banks to make loans.
- C) altering the reserves of chartered banks, largely through switching of government deposits, and sales and purchases of government bonds.
- D) restricting the issuance of bank notes because paper money is the largest portion of the money supply. ✗

50. The elimination of a recessionary gap without the help of a rightward shift of the aggregate demand:

- A) would take an unacceptably long period of time.
- B) would take 3-6 months.
- C) would happen immediately.
- D) would happen in a very short period of time.

51. Which of the following is not included in the current account of a nation's balance of payments?

- A) its merchandise exports ✓
- B) its merchandise imports ✓
- C) its net investment income ✓
- D) its capital inflows

52. Dr. Homer Simpson, an economics professor, decided to take a year off from teaching to run a commercial fishing boat in P.E.I. That year, Professor Simpson would be officially counted as:

- A) structurally unemployed.
- B) frictionally unemployed.
- C) not in the labor force. *
- D) employed. *

53. The major component of the money supply (M1) is:

- A) gold certificates.
- B) demand deposits.
- C) paper money in circulation.
- D) coins.

54. Which one of the following, other things equal, will directly alter Canada's balance of trade?

- A) an increase in official international reserves
- B) a decrease in merchandise exports
- C) an increase in net transfers *
- D) a decrease in capital outflows *

55. With a regressive tax system, as the level of income increases in an economy, the average tax rate will:

- A) increase.
- B) decrease. ?
- C) remain constant.
- D) either increase or decrease.

56. A chartered bank can expand its excess reserves by:

- A) demanding and receiving payment on an overdue loan. X
- B) buying bonds from the Bank of Canada.
- C) buying bonds from the public.
- D) paying back money borrowed from the Bank of Canada. *

57. The functions of money are to serve as a:

- A) resource allocator, method for accounting, and means of income distribution.
- B) unit of account, store of value, and medium of exchange.
- C) determinant of consumption, investment, and government spending.
- D) factor of production, exchange, and aggregate supply.

58. The current popular view about the fiscal policy is that:

- A) it can "fine tune" the economy, but it cannot "push the economy" in a particular direction.
- B) it can both "fine tune" the economy and, "push the economy" in a particular direction.
- C) it can "push the economy" in a particular direction, but it cannot "fine tune" the economy.
- D) it can neither "fine tune" or "push the economy" in a particular direction.

59. An increase in taxes of a specific amount will have a smaller impact on the equilibrium GDP than will a decline in government spending of the same amount because:

- A) the MPC is smaller in the private sector than it is in the public sector.
- B) declines in government spending always tend to stimulate private investment.
- C) disposable income will fall by some amount smaller than the tax increase.
- D) some of the tax increase will be paid out of income which would otherwise have been saved.

60. Which combination of fiscal policy actions would be most contractionary for an economy experiencing severe demand-pull inflation?

- A) increase taxes and government spending
- B) decrease taxes and government spending
- C) increase taxes and decrease government spending
- D) decrease taxes and increase government spending

61. The amount that a chartered bank can lend is determined by its:

- A) desired reserves.
- B) excess reserves.
- C) outstanding loans.
- D) outstanding demand deposits.

62. The prime rate is:

- A) the interest rate charged by the chartered banks in Canada for lending to their best customers.
- B) the interest rate charged by the chartered banks in Canada for lending to other financial intermediaries.
- C) the interest rate charged by the chartered banks in Canada for lending to the Federal government.
- D) the interest rate charged by the chartered banks in Canada for lending to the trust companies.

63. Which of the following describes the fundamental identity embodied in a balance sheet?

- A) Net Worth plus Assets equal Liabilities
- B) Assets plus Liabilities equal Net Worth
- C) Assets equal Liabilities plus Net Worth ✗
- D) Assets plus Reserves equal Net Worth ✗

64. In the aggregate expenditures model, it is assumed that investment:

- A) automatically changes in response to changes in the current level of real domestic output.
- B) changes by less in percentage terms than changes in the level of real domestic output.
- C) does not respond to changes in interest rates. ✗
- D) does not change when the level of real domestic output changes.

65. An expected rise in the rate of inflation for consumer goods will:

- A) decrease aggregate demand.
- B) increase aggregate supply.
- C) increase aggregate demand.
- D) decrease aggregate supply.

66. One major problem with using budget surpluses to pay off the public debt is that it would:

- A) eliminate the use of Canadian government securities for monetary policy.
- B) eliminate the crowding-out effect.
- C) increase the unemployment rate in the economy.
- D) increase the number of Canadian securities held by citizens and institutions in foreign nations.

67. Banks create money when they:

- A) add to their reserves in the Bank of Canada.
- B) accept deposits of cash.
- C) sell government bonds.
- D) exchange demand deposits for the IOUs of businesses and individuals.

68. The 45-degree line on a chart relating consumption and income shows:

- A) all points where the MPC is constant.
- B) all points at which saving and income are equal.
- C) all the points at which consumption and income are equal.
- D) the amounts households will plan to save at each possible level of income.

69. The most contractionary use of funds from a budget surplus would be to:

- A) cut tax rates.
- B) let the funds remain idle by impounding them.
- C) use the funds to retire outstanding government debt.
- D) increase government spending on social programs.

70. Which budget philosophy would balance the budget each year?

- A) functional finance
- B) annually balanced budget
- C) cyclically balanced budget
- D) shifting burdens

71. The higher domestic interest rate resulting from an expansionary fiscal policy in Canada will tend to:

- A) increase domestic investment spending.
- B) increase Canadian exports.
- C) increase domestic consumption spending.
- D) decrease Canadian exports.

72. The direction of discretionary fiscal policy can not be examined by the simple look at the changes in the actual budget deficits or surpluses. This is because:

- A) those changes may reflect the changes in the general price level.
- B) those changes may reflect automatic changes in the tax revenues as a result of change in GDP.
- C) those changes may reflect the changes in the tax revenues as a result of change in imports.
- D) it is impossible to calculate the changes in the actual budget deficits or surpluses.

73. Official public debt figures:

- A) imply that in the future government will have to print money, rather than borrow, to increase its debt.
- B) may overstate the seriousness of the public debt because they ignore the effects of inflation on the real value of the debt.
- C) may underestimate the seriousness of the public debt because they do not include the value of public assets.
- D) may overstate the seriousness of the public debt because they include the value of public assets.

74. If business taxes are reduced and the real interest rate increases:

- A) consumption and saving will necessarily increase.
- B) the level of investment spending might either increase or decrease.
- C) the level of investment spending will necessarily increase.
- D) the level of investment spending will necessarily decrease.

75. The use of E-cash and smart cards:

- A) accounts for most of the financial transactions in Canada.
- B) serves effectively as a measure of value, but not as a medium of exchange.
- C) will make it more difficult for the Bank of Canada to control the money supply.
- D) will increase consumer choice, but will reduce productivity in the financial services industry.

76. If real output rises and the price level falls, this would likely be due to a:

- A) rightward shift of the aggregate demand curve.
- B) leftward shift of the aggregate demand curve.
- C) rightward shift of the aggregate supply curve.
- D) leftward shift of the aggregate demand curve..

77. If a nation has a comparative advantage in the production of X, this means the nation:

- A) cannot benefit by producing and trading this product.
- B) must give up less of other goods than other nations in producing a unit of X.
- C) has a production possibilities curve identical to those of other nations.
- D) is not subject to increasing opportunity costs.

78. The reserve ratio is equal to:

- A) a chartered bank's demand-deposit liabilities divided by its desired reserve.
- B) a chartered bank's desired reserve divided by its demand-deposit liabilities.
- C) a chartered bank's demand-deposit liabilities multiplied by its excess reserves. ×
- D) a chartered bank's excess reserves divided by its desired reserve. ×

79. When a consumer wants to compare the price of one product with another, money is primarily functioning as a:

- A) store of value.
- B) unit of account.
- C) chequable deposit. *
- D) medium of exchange. *

80. Crowding-out is the notion that:

- A) since tax revenues vary directly with GDP, a rise in the level of GDP will increase the budget surplus and limit expansion.
- B) deficit financing will increase the demand for money, increase the interest rate, and reduce the level of investment spending in the economy.
- C) the full-employment budget is the best indicator of whether a budget deficit crowds out investment.
- D) the actual budget is the best indicator of whether a budget deficit crowds out saving.

81. Economic growth is best defined as an increase in:

- A) either real GDP or real GDP per capita.
- B) nominal GDP.
- C) total consumption expenditures.
- D) wealth in the economy.

82. In the aggregate expenditures model, dissaving means:

- A) the same thing as disinvesting.
- B) that households are spending in excess of their current incomes.
- C) that saving and investment are equal.
- D) that disposable income is less than zero.

83. The real interest rate is:

- A) the percentage increase in money that the lender receives on a loan.
- B) the percentage increase in purchasing power that the lender receives on a loan.
- C) also called the after-tax interest rate.
- D) usually higher than the nominal interest rate.

84. Other things equal, the short-run aggregate supply curve shifts positions when:

- A) the price level changes.
- B) the rate of inflation changes.
- C) nominal wages and other input prices change.
- D) aggregate demand changes.

85. Which of the following is correct?

- A) Government expenditures and taxes both increase the domestic output.
- B) Government expenditures and taxes both decrease the domestic output.
- C) Government expenditures increase, but taxes decrease, the domestic output.
- D) Government expenditures decrease, but taxes increase, the domestic output.

86. An increase in net exports can be expected to shift the:

- A) aggregate expenditures curve upward and the aggregate demand curve rightward. X
- B) aggregate expenditures curve upward and the aggregate demand curve leftward.
- C) aggregate expenditures curve downward and the aggregate demand curve rightward. X
- D) aggregate expenditures curve downward and the aggregate demand curve leftward.

87. Built-in stabilizers:

- A) intensify the business cycle.
- B) reduce the size of the multiplier.
- C) increase the government's deficit during a recession.
- D) are a part of discretionary fiscal policy.

88. Which of the following is correct?

- A) Desired reserves minus actual reserves equal excess reserves.
- B) Desired reserves equal excess reserves minus actual reserves.
- C) Desired reserves equal actual reserves plus excess reserves.
- D) Actual reserves minus desired reserves equal excess reserves.

89. The transactions demand for money will shift to the:

- A) right when the interest rate increases.
- B) left when the interest rate decreases.
- C) right when aggregate income increases.
- D) right when aggregate income decreases.
- E) left when aggregate income increases.

90. The greatest anti-inflationary impact of a budget surplus will occur when the federal government:

- A) uses the surplus funds to pay off its outstanding debt.
- B) impounds the surplus funds and lets them stand idle.
- C) uses the surplus funds to expand transfer payments. X
- D) gives the surplus funds to the provinces through federal grants. X

91. The type of unemployment associated with recessions is called:

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) seasonal unemployment.

92. If unintended investment in business inventories occurs, we can expect:

- A) a decline in GDP and rising unemployment.
- B) inflation.
- C) an increase in consumption.
- D) an offsetting increase in planned investment.

93. A recent development in the financial services industry is:

- A) an increase in the number of banks and thrifts.
- B) increased integration of world financial markets.
- C) increased use of coins and currency as a medium of exchange.
- D) a decrease in the financial services and activities of mutual funds.

94. Increased government spending for investments such as highways or harbors financed by increasing the public debt would most likely:

- A) crowd out future public investment.
- B) reduce the economy's future productive capacity.
- C) increase the amount of public capital stock in the future.
- D) increase the amount of private capital stock in the future.

95. Which of the following statements is correct?

- A) Built-in stability only partially offsets fluctuations in economic activity.
- B) Built-in stability works in halting inflation, but it cannot alleviate unemployment.
- C) Built-in stability can be relied on to eliminate completely any fluctuation in economic activity.
- D) Built-in stability overcorrects for fluctuations in economic activity; for example, it may change a small expansion into a recession.

96. Proponents of the notion of a "political business cycle" suggest that:

- A) the cyclically adjusted budget is a better indicator of the state of the economy than the actual budget.
- B) cyclical swings in the economy are produced by the inherent instability found in capitalist economies. X
- C) a possible cause of economic fluctuations is due to the use of fiscal policy for political purposes.
- D) there is a tradeoff among goals that tends to make the economic policies of state and local governments procyclical.

97. The factors which affect the amounts that consumers, businesses, government, and foreigners wish to purchase at each price level are the:

- A) wealth, interest rate, and foreign trade effects.
- B) determinants of aggregate supply. ✗
- C) determinants of aggregate demand.
- D) sole determinants of the equilibrium price level and the equilibrium real output. ✗

98. Which are contractionary fiscal policies?

- A) increased taxation and increased government spending
- B) increased taxation and decreased government spending
- C) decreased taxation and no change in government spending
- D) no change in taxation and increased government spending

99. Beside chartered banks , the Canadian banking system is supplemented by other financial intermediaries. These institutions include:

- A) loan companies, trust companies, credit unions, and caisses populaires.
- B) trust companies, the Bank of Canada and small size chartered banks.
- C) trust companies, credit unions, and the Bank of Canada.
- D) loan companies, trust companies and foreign banks.

100. If the Bank of Canada buys government securities from the chartered banks, which of the above transactions take place?

- A) The demand deposits of chartered banks are unchanged, but their reserves increase.
- B) The demand deposits and reserves of chartered banks both decrease. ✗
- C) The demand deposits of chartered banks are unchanged, but their reserves decrease. ✗
- D) The demand deposits and reserves of chartered banks are both unchanged.